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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
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COMMISSIONERS

GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF SEMSTREAM ARIZONA PROPANE, L.L.C., FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PAYSON DIVISION ASSETS.	DOCKET NO. G-20471A-11-0150 DECISION NO. 73160 **OPINION AND ORDER**

DATE OF HEARING:	April 2, 2012
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Dwight D. Nodes
APPEARANCES:	Mr. Michael M. Grant, GALLAGHER & KENNEDY, P.A., on behalf of SemStream Arizona Propane, L.L.C.; and Mr. Charles O. Hains, and Mr. Wesley C. Van Cleve, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

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Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

I. Procedural History

1. On April 4, 2011, SemStream Arizona Propane, L.L.C. ("SemStream," "SemStream Arizona" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for an increase in rates for service provided in its Payson Division. With its application, the Company filed the direct testimony of Douglas R. Mann (Ex. A-1), Cathy A. Wolverton (Ex. A-

3), and Dan L. Neidlinger (Ex. A-4).

2. On May 4, 2011, the Commission's Utilities Division ("Staff") filed its Sufficiency Letter stating that the application was sufficient pursuant to Arizona Administrative Code ("A.A.C.") R14-2-103, and classifying SemStream as a Class A utility.

3. On May 12, 2011, a Procedural Order was issued that, among other things: scheduled a hearing to commence on January 4, 2012; established pre-filed testimony filing deadlines; and directed the Company to mail notice of the application and hearing to all affected customers, and to publish notice in a newspaper of general circulation in the affected service area.

4. On May 19, 2011, a teleconference was conducted with counsel for SemStream and Staff to discuss correcting an inadvertent error in the May 12, 2011 Procedural Order's required Public Notice.

5. On May 19, 2011, a Procedural Order was issued correcting the error in the Public Notice.

6. On August 30, 2011, SemStream filed an Affidavit of Publication attesting that the required notice was published on August 16 and 19, 2011, in the *Payson Roundup*; and also filed a certification of mailing indicating that the notice had been mailed to customers in the Company's August billing cycle.

7. On October 11, 2011, Staff filed a Motion for an Extension of Time. In its Motion, Staff stated that due to its workload, as well as developments that had arisen during Staff's review of the application, Staff needed additional time to finish its investigation and file its direct testimony. Staff indicated that SemStream did not object to the requested extension of time.

8. On October 14, 2011, a Procedural Order was issued granting Staff's Motion; establishing new testimony filing dates; rescheduling the evidentiary hearing to begin on April 2, 2012; and reserving the original January 4, 2012, hearing date for receiving public comment in accordance with the Public Notice published and mailed to customers by SemStream.

9. On December 2, 2011, SemStream filed certain revised schedules in support of its application, following discussions with Staff.

10. On January 4, 2012, the original scheduled hearing date, an opportunity for public

comment was convened. No members of the public appeared on that date to offer public comment.

11. On January 17, 2012, Staff filed the direct testimony of Elijah O. Abinah (Ex. S-1), Robert G. Gray (Ex. S-4), Candrea Allen (Ex. S-3), and Scott Bryan Frye, Jr. (Ex. S-2).

12. On February 13, 2012, SemStream filed the rebuttal testimony of Mr. Mann stating that the Company was in agreement with Staff's recommendations, subject to few minor clarifications that had been addressed with Staff through data requests. (Ex. A-2, at 1.)

13. On February 27, 2012, Staff filed the surrebuttal testimony of Mr. Gray, indicating that there were no outstanding disputed issues between the Company and Staff. (Ex. S-5, at 2.)

14. On March 5, 2012, SemStream filed a Notice Concerning Rejoinder Testimony, stating that no rejoinder testimony was necessary because the Company and Staff were now in agreement on all previously disputed issues.

15. On March 27, 2012, SemStream filed its Witness Summaries of its direct and rebuttal testimony.

16. On March 28, 2012, Staff filed its Witness Summaries of testimony.

17. On March 30, 2012, the prehearing conference was convened to discuss scheduling of witnesses and other procedural matters.

18. On April 2, 2012, the evidentiary hearing commenced before a duly authorized administrative law judge. SemStream and Staff appeared through counsel. At the conclusion of the hearing, the matter was taken under advisement pending submission of late-filed Final Schedules by Staff and issuance of a Recommended Opinion and Order.

19. On April 3, 2012, SemStream filed a Notice of Waiver stating that it waived the ten-day exception right with respect to the Recommended Opinion and Order, pursuant to A.A.C. R14-3-110.

20. On April 9, 2012, Staff filed Post-Hearing Final Schedules to correct errors that were discovered in Staff's previously filed schedules. Staff indicated that SemStream is in agreement with the revised schedules submitted by Staff.

21. On April 10, 2012, SemStream filed a Notice of Filing Post-Hearing Revised Exhibit. SemStream's revised schedule reflects Staff's recommendation that the GS-1 General Propane

Service class delivery charge rate for residential and small commercial customers be set at $0.7907. Staff stated that SemStream agrees with its recommendation.

II. Background

22. SemStream is certificated by the Commission to provide underground propane gas utility service in the areas of Payson and Page. This application involves a request for an increase in rates for the Company's Payson Division, which serves approximately 7,550 customers in the Payson, Pine, Strawberry, and Star Valley areas. (Ex. S-1, at 3-4.)

23. SemStream Arizona acquired the assets and Certificate of Convenience and Necessity ("CC&N") of Energy West, Inc. ("Energy West"), in 2007, pursuant to Decision No. 69394 (March 22, 2007). The rates currently charged by SemStream were established in Decision No. 60383 (August 29, 1997) for Broken Bow Gas, a subsidiary of Energy West. (*Id.*)

24. According to Staff witness Elijah Abinah, SemStream indicated that it currently has four propane gas distributor competitors that provide propane to customers via above ground storage tanks. The Company claims that these competitors, which are non-regulated entities, engage in aggressive marketing tactics that have impacted negatively SemStream's revenues and customer counts. SemStream indicated that it serves only 65 percent of the market in its CC&N area due to these competitors. (*Id.* at 4-5.)

25. SemStream witness Doug Mann testified that, during the 2010 test year, the Company incurred an operating loss of $291,824, resulting in a negative rate of return of 4.36 percent. SemStream also claimed that a rate increase is justified at this time because its cost of service, number of customers, and assets have more than doubled since its last rate case 13 years ago, and due to a decrease of approximately 27 percent in per customer consumption during that period. (Ex. A-1, at 4-5.)

III. Revenue Requirement

26. SemStream originally requested an overall revenue increase of $1,561,480, or 24.31 percent over adjusted test year revenues of $6,422,646. The Company proposed an original cost rate base ("OCRB") and fair value rate base ("FVRB") of $6,699,143, with an overall cost of capital of 9.86 percent, based on a capital structure of 29 percent debt and 71 percent equity, and a proposed

embedded cost of debt of 8.76 percent and cost of equity of 10.3 percent. (Ex. A-4, at 2-3.)

27. As set forth in its Final Schedules, Staff recommends a revenue increase of $1,135,821, or 17.68 percent over total adjusted test year revenues of $6,422,646.[1] Staff's recommendation results in an operating income of $646,120, for a 9.64 percent rate of return on the Company's OCRB and FVRB of $6,699,143.[2] SemStream witness Mann stated that the Company is in agreement with Staff's recommendation. (Ex. A-2, at 1.)

28. In addition to the bifurcation recommendation, Staff proposed several adjustments to SemStream's original request regarding operating expenses. Specifically, Staff recommended: eliminating the Company's proposal to increase employee incentive compensation by three percent; reducing SemStream's proposed rate case expense of $270,000, to $180,000, amortized over three years; excluding the cost of hiring a new employee for a vacant position in the Company's accounting department; and eliminating SemStream's request to recognize income tax expense as a component of cost of service, based on the fact that SemStream is a limited liability company that does not incur or pay corporate income tax under the Internal Revenue Service tax codes. (Ex. S-1, at 6-7.) Staff's recommended adjustments result in a total test year operating expense allowance of $2,604,901 which, after bifurcating the PGA revenues, produces a net test year operating loss of $489,701, or a negative 7.31 percent test year rate of return. (Staff Final Sched. AII-1, AII-5.)

29. SemStream originally proposed the use of a 9.86 percent cost of capital based on an 8.76 percent cost of debt and 10.30 percent cost of equity, and a capital structure comprised of 29 percent long-term debt and 71 percent equity. Staff recommended acceptance of the proposed cost of debt, but reducing the equity cost to 10.0 percent, resulting in an overall rate of return of 9.64 percent. (Ex. S-1, at 8-9; Staff Final Sched. AII-1.) SemStream agreed to Staff's recommended cost of capital. (*Id.*)

30. Based on its analysis, Staff calculated a required operating income for SemStream of

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[1] Staff is recommending that SemStream's revenue requirement be bifurcated for recovery through base rates and the purchased gas adjustor ("PGA") mechanism. Under Staff's recommendation, $3,251,021 of total operating revenues would be collected through base rates, while the balance of the total $7,558,467 Staff proposed revenue requirement would be collected through the PGA (*i.e.*, $4,307,446). (Ex. S-1, at 5-6, as modified by Staff's Final Schedules.)

[2] Staff agreed with SemStream's proposed plant-in-service, accumulated depreciation, and other rate base additions and reductions. As a result, there is no disagreement between Staff and the Company with respect to the appropriate test year OCRB and FVRB to be used in this case ($6,699,143). (Ex. S-1, Sched.AII-3; Staff Final Sched. AII-3.)

$646,120, thereby producing a required net revenue increase of $1,135,821, and a total base rate revenue requirement of $3,251,021. (*Id.*) SemStream has agreed to Staff's recommended revenue requirement. (Ex. A-2, at 1.)

Summary of Revenue Requirement Findings

31. We find Staff's recommendations, as modified by its Final Schedules and agreed to by SemStream, to be reasonable, appropriate and in the public interest. For purposes of setting rates in this case, we find: SemStream's jurisdictional OCRB and FVRB is $6,699,143; and SemStream's jurisdictional test year base revenues are $2,115,200.

32. We also find that, for purposes of setting rates in this case, a base revenue increase of $1,135,821, with a return on equity of 10.0 percent, and an overall rate of return of 9.64 on FVRB, are just and reasonable and in the public interest.

IV. Rate Design Issues

33. Staff witness Robert Gray described SemStream's current rate structure as consisting of two rate schedules. Rate Schedule GS-1 is available to all residential and commercial customers, without differentiation, and currently has a monthly service charge of $5.00, a margin or non-gas rate of $1.1915, and a base cost of gas of $0.6248. In addition, customers pay the monthly PGA rate, which varies from month-to-month, and is applied on a per therm basis. (Ex. S-4, at 2.) Mr. Gray indicated that SemStream's GS-1 rate schedule allows the Company to offer discounts of up to 25 percent; however, the Company is proposing to eliminate the discount provision of the tariff. (*Id.* at 3.)

34. SemStream's other rate schedule is for Large Volume Gas Contract Service ("LVGCS"), which is available to commercial customers with a minimum annual consumption of 4,000 therms. Prices with LVGCS customers are negotiated, but are subject to changes in the cost of gas during the term of the contract. Mr. Gray stated that there are two sub-classes of LVGCS customers; one for schools in the Payson area, and the other for non-school customers. Under the current rates, there is no specific delineation between the LVGCS classes; however, under the Company's proposed rate structure, LVGCS-Schools customers would be assessed a $12.00 monthly service charge and LVGCS-Contract customers would have a $30.00 monthly service charge. (*Id.*)

35. Mr. Gray testified that under its current rates, SemStream received $903,320 from the LVGCS-Contract segment of customers and $148,920 from LVGCS-Schools customers during the test year. With the new proposed customer charges, SemStream estimates that it will receive $1,016,243 and $177,963 annually from the respective segments. (*Id.* at 4-5.)

36. Staff agrees with the Company's proposed monthly service charges for the LVGCS customers. Mr. Gray indicated that, in comparison, Southwest Gas charges a monthly fee of $27.50 to its smallest commercial customers and $43.50 to its medium commercial customers, with higher monthly service charges for its largest commercial customers. UNS Gas charges a $15.50 per month service charge for small commercial customers, and $105.00 for larger commercial customers. (*Id.* at 5.)

37. With respect to SemStream's GS-1 customers, SemStream originally proposed increasing the monthly service charge from the current $5.00, to $12.00. Mr. Gray stated that Staff is recommending that the GS-1 service charge be increased to $10.00 per month instead. He noted that the current monthly service charges for residential customers of Southwest Gas and UNS Gas are $10.70 and $10.00, respectively. (*Id.* at 6.)

38. Staff also recommended that SemStream's non-gas per therm charge be increased from the current $0.5667, to $0.7907.[3] Mr. Gray pointed out that including a significant portion of the rate increase in the per therm rate would provide customers an opportunity to reduce their overall bills by reducing their consumption. (*Id.*)

39. SemStream requested increases to several of its miscellaneous charges regarding re-establishment of service, reconnection of service, meter testing and after-hours services. Staff agreed that certain charges should be increased, but recommended lower charges than requested by the Company. Staff recommends an after-hours labor charge of $55.00 per hour; a re-establishment of service charge of $45.00; and a customer-requested meter test charge of $35.00. (*Id.* at 6-7.)

40. SemStream has agreed to Staff's recommendations regarding eliminating the discounting provision of the GS-1 tariff, setting the GS-1 monthly service charge at $10.00, resetting

[3] As indicated above, Staff filed a late-filed exhibit on April 10, 2012, correcting the prior non-gas per therm charge of $0.7867, to $0.7907.

the non-gas per therm charge, and adjusting the miscellaneous charges. (Ex. A-2, at 2.)

V. <u>Other Issues</u>

<u>Procurement Review</u>

41. As part of its audit in this case, Staff conducted a review of SemStream's procurement practices for the Payson Division for the period of June 2007 through December 2010. Based on this review, Staff recommended the following:

- SemStream's Payson Division should be required to file an advice letter in this docket any time there is a substantive change in how procurement is done for the Payson Division by NGL Energy Partners, L.P. ("NGL") or any successor entity.
- SemStream's Payson Division should be required to file in this docket, in June 2013, a report providing a detailed discussion of how the Winslow terminal has changed its procurement activities since it opened, within the context of the Payson Division's overall procurement activities.

42. SemStream witness Mann stated that the Company would provide the information recommended by Staff regarding procurement activities. (Ex. A-2, at 7.)

<u>Affiliate Activities</u>

43. SemStream, L.P., is the parent company of SemStream Arizona. According to Staff, on August 31, 2011, SemGroup announced that it was contributing most of its SemStream, L.P., business to NGL for cash and equity interests. Mr. Gray indicated that with the exception of the SemStream Arizona assets, all of SemStream, L.P.'s assets were moved to NGL. (Ex. S-4, at 9.)

44. Mr. Gray stated that the Company did not file an application with the Commission pursuant to A.A.C. R14-801, *et seq.* (affiliate interest rules), because SemStream apparently believed the transaction did not require Commission approval since it did not involve: an acquisition or divestiture of a financial interest in an affiliate or utility; reconfiguration of an existing affiliate or utility's position in the corporate structure; or merger or consolidation of an affiliate or utility. (*Id.*) According to Mr. Gray, a number of administrative functions previously performed by SemStream Arizona's direct parent, SemStream, L.P., will now be handled by the ultimate parent, SemGroup. He indicated that much of the propane procurement function is part of what has been transferred to NGL. (*Id.* at 10.)

45. Staff stated that it is difficult to know if there will be any negative impacts from the

transaction on SemStream Arizona, but Staff has not been able to identify any negative impacts; therefore Staff is not recommending any action be taken against SemStream regarding this issue. However, Staff recommends that as of the effective date of this Decision, SemStream Arizona should be required to file a notification letter in this docket "any time actions are taken within the greater corporate structure that impact the cost of functions provided by other affiliated entities, who performs such functions within the affiliated entities, or the nature of such functions performed within the affiliated entities." (*Id.* at 11.)

46. Mr. Gray noted that the SemStream transaction differs from most affiliated interest situations because usually the jurisdictional utility is a significant, and often dominant, part of the overall corporate entity; whereas SemStream Arizona is a very small part of the overall company that is engaged in many other business interests unrelated to the regulated utility. However, Mr. Gray pointed out that the Commission still has a vested interest in activities within the larger corporate structure that could affect the jurisdictional utility. He believes that the notification requirement described above strikes the proper balance in this case. (*Id.* at 11-12.) SemStream agreed to submit a notification letter in accordance with Staff's recommendation. (Ex. A-2, at 5-6.)

<u>Base Cost of Gas</u>

47. Staff witness Candrea Allen described the function of SemStream's PGA mechanism, and stated that the Company's current base cost of gas is $0.6248 per therm, as was established in Decision No. 60383 (August 29, 1997). She indicated that SemStream originally requested that the base cost of gas be set at $1.40 per therm in this case, but that Staff recommends the base cost of gas be set at zero and, going forward, the entire cost of gas should be recovered through the PGA rate, consistent with the Commission's treatment of other gas utilities. (Ex. S-3, at 1-2.)

48. Ms. Allen explained that Staff's recommendation would have no impact on SemStream's customers' rates, and that recovering the entire cost of gas in the PGA in a single amount on customers' bills would have the benefit of making the actual cost of gas more transparent and easier to understand. She stated that, under Staff's recommendation, on a going-forward basis the entire 12-month rolling average would be reflected in the PGA rate and the base cost of gas category would no longer be listed as a separate charge. (*Id.* at 2.)

Purchased Gas Adjustor

49. As described in Staff's testimony, SemStream, like other gas companies, is not permitted to make a profit on the cost of the propane it purchases to supply customers. SemStream is permitted to recover the cost of the propane, as well as associated transportation costs. As explained above, these costs are currently recovered through the base cost of gas and the PGA, and a surcharge or surcredit may also be applied to pay down over-collections or under-collections that occur due to price fluctuations in the cost of propane. (*Id.* at 4.)

50. Under its current configuration, the Company's PGA bandwidth limits the movement of the monthly PGA rate over a 12-month period. The current bandwidth is $0.16 per therm, which means that when a new PGA rate is calculated each month, the new monthly rate cannot be more than $0.16 per therm different than the monthly PGA rate for any of the previous 12 months. (*Id.* at 5.) Ms. Allen explained that the PGA bandwidth was initially established in Decision No. 61225 (October 30, 1998) at a rate of $0.12 per therm for Arizona propane local distribution companies ("LDCs") during a period of relatively stable gas prices. As prices became more volatile, that bandwidth level often limited the movement of monthly PGA rates for periods of time and, in Decision No. 62994 (November 3, 2000), propane LDCs were granted a bandwidth increase to $0.16 per therm. (*Id.* at 5-6.)

51. In its application, SemStream initially requested that the PGA bandwidth be set at $0.24 per therm. Staff instead recommended that the bandwidth be increased only to $0.20 per therm. Ms. Allen stated that this bandwidth increase would provide the Company with sufficient additional room for movement of the monthly PGA rate, while providing a reasonable limit on the exposure of customers to automatic adjustments without Commission review. (*Id.* at 6.) SemStream witness Mann testified that Staff's bandwidth expansion recommendation is acceptable to the Company. (Ex. A-2, at 3-4.)

52. Ms. Allen also discussed the issue of SemStream's PGA bank balance. She stated that the PGA rate reflects an average and, because the PGA bandwidth limits how much the PGA rate can change in a given month, the amount actually recovered through the PGA differs from the actual cost of gas (higher or lower). The difference is tracked and recorded in the PGA bank balance so that

over- or under-collections can ultimately be returned to customers or recovered by the Company. The Commission establishes thresholds for companies that limit how much the bank balance can be over- or under-collected before a company must take action through an application to the Commission. (Ex. S-3, at 7.)

53. SemStream's current bank balance thresholds were set at $120,000 for the Company's predecessor in Decision No. 61225. Staff indicated that SemStream initially sought in its application to increase the over-collected threshold to $265,000, and to eliminate the under-collected PGA threshold. (*Id.* at 8.) However, Staff recommended that the threshold should be adjusted to $265,000 for both over- and under-collected bank balances. Mr. Mann testified that SemStream finds Staff's recommendation acceptable. (Ex. A-2, at 4.)[4]

<u>Demand Side Management Adjustor</u>

54. As defined by Staff, demand side management ("DSM") is the "planning, implementation, and evaluation of programs to shift peak load to off-peak hours, to reduce peak demand and/or energy consumption in a cost-effective manner." (Ex. S-3, at 9.)

55. Staff indicated that SemStream is not currently providing DSM or conservation programs to its customers, although the Company filed an application on April 4, 2011, for approval of an Energy Efficiency Implementation Plan ("EE Plan")[5] pursuant to A.A.C. R14-2-2519. Ms. Allen stated that Staff is in the process of reviewing SemStream's EE Plan. (*Id.*)

56. According to Staff, SemStream's per customer usage has declined a total of 27 percent since its last rate case in 1997, or approximately two percent per year. Staff also points out that SemStream faces competition from other propane providers within its service area, and imposition of a DSM adjustor in addition to the proposed rate increase could cause SemStream to lose customers. Therefore, Staff recommends that SemStream be granted a waiver of the requirements of A.A.C. R14-2-2519 for 2011 and 2012, and that the Company include information in its 2013 EE Plan regarding whether there is continuing declining usage per customer. (*Id.* at 10.)

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[4] Neither Staff nor the Company recommended any changes to the interest rate applied to over- or under-collected bank balances, which is based on the Monthly Three-Month Commercial Financial Paper Rate, as published by the Federal Reserve. (Ex. S-3, at 9.)

[5] Docket No. G20471A-11-0141.

57. Although Staff recommends a waiver of the energy efficiency requirements for SemStream, Ms. Allen indicated that the Company should have a DSM adjustor mechanism in place in the event DSM programs are established in the future. She stated that SemStream would not begin collecting funds through the DSM adjustor until approved by the Commission. When, or if, future DSM programs are approved for SemStream, the DSM surcharge would be based on projected funding divided by test year therm sales, with over- or under-collections trued up on an annual basis. According to Staff, it will review the Company's 2013 EE Plan and make recommendations to the Commission as to whether the EE Plan programs should be approved. (*Id.* at 11-12.) SemStream agrees with Staff's recommendation regarding the DSM adjustor. (Ex. A-2, at 4.)

Accounting System

58. In Decision No. 69394, the Commission imposed a requirement on SemStream that it maintain separate accounting records for its operations in Arizona and retain the related books and records at the Company's Payson offices. In its audit of this case, Staff found that SemStream has continued to employ a joint bank account for its regulated and non-regulated operations, and that it keeps many of its records at the parent company's offices in Tulsa, Oklahoma, in violation of Decision No. 69394. Mr. Abinah stated that maintaining a joint bank account results in commingling of regulated and non-regulated funds and makes the Company's records more difficult to audit. Staff did not recommend that SemStream be penalized in this case because Staff found the Company's books and records are well maintained in accordance with generally accepted accounting principles ("GAAP") and the National Association of Regulatory Commissioners ("NARUC") Uniform System of Accounts ("USOA"). However, Staff recommended that SemStream be required in the future to maintain a separate, independent and dedicated bank account for its regulated business in Arizona. (Ex. S-1, at 20-22.) SemStream stated that it will comply with Staff's recommendation. (Ex. A-2, at 4-5.)

Conclusion Regarding Other Issues

59. We find Staff's recommendations regarding these issues, as agreed to by SemStream, to be just, reasonable, and in the public interest.

VI. **Bill Impact**

60. Staff presented bill impact estimates for GS-1 rate customers and LVGCS customers. Mr. Gray indicated that Staff included a $1.40 per therm gas cost in its estimates in order to provide continuity in comparing current and proposed rates. For GS-1 residential customers with median winter usage of 58 therms, the current bill of $119.07 would increase to $137.06, or 15.1 percent, under Staff's recommendation. GS-1 residential customers with usage at the winter mean of 67 therms, would experience an increase from $136.77 under current rates, to $156.78, or 14.6 percent over current rates. (Ex. S-4, at 7.)

61. For GS-1 commercial customers with a median usage of 87 therms, a monthly bill would increase from $176.10 under current rates, to $200.59, or 13.9 percent, under Staff's recommended rates. GS-1 commercial customers using the mean of 180 therms would experience a monthly bill increase from the current amount of $359.01, to $404.33, or 12.6 percent, under Staff's proposed rates. (*Id.* at 8.)

62. Mr. Gray stated that it is not possible to know the exact future bill impact for LVGCS customers because they receive service pursuant to negotiated rates. However, for purposes of calculating an estimated impact, Staff assumed the Company's estimate of revenues that would be received from those customers under the proposed rates. For LVGCS-Schools customers with a median winter usage of 301 therms, the monthly bill would increase from $514.53 under current rates, to $603.83, or 17.4 percent, under Staff's recommended rates. With mean usage of 750 therms, a LVGCS-Schools customer's bill would increase from the current $1,282.05, to $1,486.65, or 16.0 percent, under Staff's recommended rates. LVGCS-Contract customers with median winter usage of 427 therms would see an increase from $752.16 under current rates, to $850.91, or 13.1 percent, under Staff's recommended rates. LVGCS-Contract customers with usage at the winter mean of 761 therms would experience an increase from $1,340.50 under current rates, to $1,493.02, or 11.4 percent, under Staff's proposed rates. (*Id.* at 8-9.)

CONCLUSIONS OF LAW

1. SemStream is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over the Company and the subject matter of the application.

3. Notice of the application was provided in the manner prescribed by law.

4. The rates and charges for SemStream's Payson Division, as attached hereto in Exhibit A and incorporated by reference herein, are just and reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that SemStream Arizona Propane, L.L.C., is hereby directed to file with the Commission on or before May 31, 2012, revised schedules of rates, charges and regulations for its Payson Division, consistent with Exhibit A and the discussion herein.

IT IS FURTHER ORDERED that the revised schedules of rates, charges and regulations shall be effective for all service rendered on and after June 1, 2012.

IT IS FURTHER ORDERED that SemStream Arizona Propane, L.L.C., shall notify its affected customers of the revised schedules of rates and charges authorized herein by means of an insert in its next regularly scheduled billing, in a form acceptable to the Commission's Utilities Division Staff.

IT IS FURTHER ORDERED that SemStream Arizona Propane, L.L.C., shall in the future file a notification letter in this docket any time actions are taken within the greater corporate structure that impact the cost of functions provided by other affiliated entities, who performs such functions within the affiliated entities, or the nature of such functions performed within the affiliated entities.

IT IS FURTHER ORDERED that SemStream Arizona Propane, L.L.C., shall, for its Payson Division, file an advice letter in this docket any time there is a substantive change in how procurement is done for the Payson Division by NGL or any successor entity.

IT IS FURTHER ORDERED that SemStream Arizona Propane, L.L.C., shall, for its Payson Division, file with Docket Control, as a compliance item in this docket, by June 30, 2013, a report providing a detailed discussion of how the Winslow terminal has changed its procurement activities since it opened, within the context of the Payson Division's overall procurement activities.

IT IS FURTHER ORDERED that SemStream Arizona Propane, L.L.C., shall be granted a waiver of the requirements of A.A.C. R14-2-2519 for 2011 and 2012.

IT IS FURTHER ORDERED that a DSM adjustor mechanism for SemStream Arizona Propane, L.L.C., shall be approved to be implemented in the event DSM programs are established in the future by the Commission. Upon future Order of the Commission, the initial DSM surcharge shall be based on projected funding divided by test year therm sales, as determined in the Company's EE Plan; in subsequent years, the per therm adjustor rate shall be based on the following year's projected funding, adjusted for the previous year's over-collection or under-collection, divided by the following year's projected therm sales; over-collections or under-collections for DSM costs shall be tracked in a DSM bank balance and any balance shall be trued-up annually, when the DSM adjustor rate is recalculated; the DSM adjustor rate shall be reset annually on a date set by the Commission, and any new adjustor rate must be approved by the Commission; in its 2013 EE Plan, the Company shall include information regarding the per therm usage patterns of its customer base, and specifically whether there has been a continued decline in customer usage; by January 31 of each year, beginning with the first full year after a Decision has been issued in SemStream's EE Plan docket, the Company shall file for Commission approval to reset the per therm DSM adjustor rate, which rate would go into effect annually on June 1, upon Commission approval, following the January 1 annual filing; and if the Company requests that the DSM adjustor rate not be change, the DSM surcharge shall remain in effect until further Order of the Commission.

IT IS FURTHER ORDERED that SemStream Arizona Propane, L.L.C.'s base cost of gas shall be set at zero and, on a going forward basis, the entire cost of gas shall be recovered through the Company's PGA rate.

IT IS FURTHER ORDERED that SemStream Arizona Propane, L.L.C.'s PGA bandwidth shall be set at $0.20 per therm.

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IT IS FURTHER ORDERED that SemStream Arizona Propane, L.L.C.'s PGA threshold shall be adjusted to $265,000 for both over- and under-collected bank balances.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN   COMMISSIONER

COMMISSIONER   COMMISSIONER   COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 18th day of MAY 2012.

ERNEST G. JOHNSON
EXCUTIVE DIRECTOR

DISSENT ______________________

DISSENT ______________________

SERVICE LIST FOR: SEMSTREAM ARIZONA PROPANE, L.L.C.

DOCKET NO.: G-20471A-11-0150

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EXHIBIT A

SemStream Ariona Propane (Payson Division)

Schedule of Rates and Services Charges

Rates

		CURRENT		PROPOSED	
RESIDENTIAL					
	Basic Service Charge	$5.00		$10.00	
	Delivery Charge per therm (1)	$0.5667		$0.7907	
COMMERCIAL:					
	Basic Service Charge	$5.00		$10.00	
	Delivery Charge per therm (1)	$0.5667		$0.7907	
CONTRACT (2):					
	Basic Service Charge	$0.00		$30.00	
	Delivery Charge per therm (1)	$0.3615		$0.5225	
SCHOOLS (2):					
	Basic Service Charge	$0.00		$12.00	
	Delivery Charge per therm (1)	$0.3094		$0.5662	

Service Charges

	CURRENT		PROPOSED	
Establishment of Service				
Regular Hours	$25.00		$30.00	
Re-Establishment after Seasonal Disconnect				
Basic Service Charge Times Months Disconnected				
Minimum Charge	$25.00		$45.00	
Re-Connection of Service:				
Regular Hours	$25.00		$30.00	
Service Labor Charges - Per Hour:				
Regular Hours	$25.00		$35.00	
After Hours	$37.50		$55.00	
Customer Requested Meter Test	$25.00		$35.00	
Customer Requested Re-read (If Correct)	$25.00		$25.00	
NSF Check	$15.00		$15.00	
Late Charge	1.50%	MONTH	1.50%	MONTH
Deposit Requirements	ACC Rule R14-2-403B		ACC Rule R14-2-403B	
Interest on Customer Deposits	6%		2%	
Repair BROKEN LINES (3)				

(1) Excludes Base Cost of Gas

(2) Delivery Charges for Contract and School customers are negotiated; charges shown are average negotiated rates

(3) Actual Cost of Material and Labor at Service Labor Rates - Customer Responsibility

SemStream Arizona Propane (Payson Division)

RATE SCHEDULE GS-1 GENERAL PROPANE GAS SERVICE

AVAILABILITY

Available to all customers within the Company's service area which meet applicability requirements and where facilities of adequate capacity and suitable pressure are adjacent to the point of delivery.

APPLICABILITY

Applicable to all propane gas service supplied through one point of delivery and measured through one meter. Not applicable to negotiated contracts, temporary, standby, supplementary or resale service.

RATES	**Current**	**Revised**	**Date**
BASIC SERVICE CHARGE	**$ 10.00**		
DELIVERY $/THERM	**$ 0.7867**		

For propane gas supplied during the monthly billing period.

Adjustments

Purchased Gas Adjustment

The cost of gas is recovered solely through the Company's Purchased Gas Adjustor mechanism. Through this mechanism, the actual cost of gas flows through to customers.

Tax Adjustments and Regulatory Assessments

Total monthly sales for gas service are subject to the adjustment for all federal, state, and local governments' taxes or levies on such sales and any assessments that are or may be imposed by regulatory agencies on utility gross revenues.

Conditions of Service

The terms and conditions for the provision of service to the customer under this rate schedule are also subject to the Rules and Regulations of the utility as approved and modified from time to time by the Arizona Corporation Commission.

Effective

This Tariff is effective for all service from and after ______________ billing period, as authorized in Decision No. __________ dated ____________________.

General Service - 1 **DRM-8**

SemStream Arizona Propane (Payson Division)

LARGE VOLUME GAS CONTRACT SERVICE (LVGC)

AVAILABILITY

By contract, in all territory served by Company at points where facilities of adequate capacity and suitable pressure are adjacent to the premises serviced.

APPLICABILITY

To all propane gas service required which meet the requirements of this tariff, except residential and small commercial (less than 4,000 therms per year) service. Not applicable to temporary, standby, supplementary or resale service.

CONTRACT:

Negotiated

$/Therm plus basic service charge ($12 for school class; $30 for contract class) Minimum charge per therm will be equivalent to a $/Therm charge equal to the previous year's average fixed charge per customer.

Minimum Volume

4,000 Therms per contract year.

Adjustments

Purchased Gas Adjustment

The cost of gas is recovered solely through the Company's Purchased Gas Adjustor mechanism. Through this mechanism, the actual cost of gas flows through to customer.

Tax Adjustments and Regulatory Assessments

Total monthly sales for gas service are subject to the adjustment for all federal, state, and local govenments taxes or levies on such sales and any assessments that are or may be imposed by regulatory agencies on utility gross revenues.

Conditions of Service

The terms and conditions for the provision of service to the customer under this rate schedule are also subject to the Rules and Regulations of the utility as approved and modified from time to time by the Arizona Corporation Commission.

Effective

This Tariff is effective for all service for and after ______________ billing period, as authorized in Decision No. __________ dated ____________________.

Large Volume Gas Contract **DRM-9**

INTRODUCTION

The policies outlined herein are to meet current, normal operating circumstances and are subject to change after such revision(s) have received the approval of the Arizona Corporation Commission. Pursuant to the Arizona Administrative Code, Public Service Corporations; Corporations and Associations; Fixed Utilities; Chapter 2; Article 3, Gas Utilities, the following additional rules and regulations pertaining to Gas Service are adopted by SemStream Arizona Propane and are to be observed and followed within the Payson service territory. The attached Schedule of Rates and Service Charges (**DRM-7**) and tariffs (**DRM-8 and DRM-9**) are applicable as well.

SECTION NO. 1

Availability

(a) Service is available to all customers within the Company's certificated service area where facilities of adequate capacity and suitable pressure are adjacent to the point of delivery.

(b) Where customers cannot be served directly from Company's existing facilities, Company will extend its distribution mains and service lines pursuant to the Company's Main Extension Policy set forth herein.

SECTION NO. 2

Inaugurating Service

(a) When gas service is inaugurated to new customers, a Service Establishment fee of (**see DRM-7**) will be charged and will be included in the customers' first monthly billing.

(b) Before any person shall be entitled to receive service under Company's General Service Rate tariff, such person must sign Company's standard application for gas service and deposit with the Company the customary security as hereafter provided in Section No. 3.

SECTION NO. 3

SECURITY DEPOSIT

(a) The Company may, in its discretion, require a security deposit prior to inaugurating service.

(b) Residential customer deposits shall not exceed two times that customer's estimated average monthly bill.

(c) Residential deposits and accrued interest shall be refunded or Letter of Guarantee or surety bond shall expire after 12 months of service if the customer has not been delinquent more than twice in the payment of utility bills during that service period.

(d) The Company shall be entitled to apply customer's security deposit, together with any unpaid interest accrued thereon, to any indebtedness owed the Company, and when it has been applied to such indebtedness, the consumer's gas service may be discontinued until the entire delinquent balance of the account is paid and an adequate deposit is again made with the Company by customer. No interest will accrue on any deposit after discontinuance of the service to which it relates.

(e) The Company will issue to each customer from whom a security deposit has been received a non-assignable receipt.

(f) Should customer be unable to produce his original security deposit receipt when applying for return of his deposit, or any part to which he is entitled, a substitute security deposit receipt will be furnished by the Company.

(g) Interest, computed at the rate of (**see DRM-7**) per annum will be paid by Company upon each such deposit for the time the deposit was held and customer was being served by the Company, except that no interest will be paid on deposits held by the Company for less than 15 consecutive days. Payment of interest on customer's security deposits will be made during the first quarter of each calendar year and shall be paid, at Company's option, either by check or by credit on customer's monthly bill, and each such payment shall cover all interest accrued up to the end of the immediate preceding year.

SemStream Arizona Propane
Rules and Regulations for Gas Service (DMR-10)
Payson, AZ. 85541

SECTION NO. 4

CHARGES FOR SPECIAL SERVICE

(a) **Season-Discontinuance**: When service is discontinued and later restored for the same customer at the same premises within a period of twelve months from the date upon which it was discontinued at customer's request, a charge of (**see DRM-7**) shall be made for such reconnection. This charge will appear on a subsequent monthly bill.

(b) **Non-Payment Discontinuance**: When satisfactory arrangements have been made by a customer after service has been discontinued because of non-payment, service will be restored upon payment in advance of a reconnection charge of (**see DRM-7**).

(c) **Exceptions**:

(1) The above discontinuance charges are not applicable to Churches, Public Schools, and Governmental buildings supported by City, County, State or Federal Funds, or in cases where the customer's service has been interrupted by some catastrophe beyond his control.

(2) A Contractor in the process of building new houses for sale to the general public or a housing project for the Federal Government will on occasion require gas service to complete construction, particularly the interior of a building. There will also be occasions where gas service is required during the period when a new dwelling is on display and is in the process of being sold. In such instances, a Contractor or Developer shall not be required to pay the discontinuance charge, so long

as service is discontinued in his name after the house has been completed or sold.

(d) **Special Meter Reading Service**: When a customer requests the Company to read a meter at any time other than the regular reading date, a charge of (**see DRM-7**) may be made. In the event the meter is found to have been over-read or there is a leak on the outlet of the meter, no charge will be made in those instances.

(e) **Testing Meters at Customer's Request:** When a customer requests his meter be tested for accuracy and it is found that the meter is within 3% fast or slow, based on the average of check and open flow test method, no billing adjustment shall be made and the customer shall be charged for this special service at the COMPANY'S HOURLY RATES THEN IN EFFECT with a one hour minimum charge. In the event the meter is found to test more than 3% fast or slow on the basis as stated above, no charge will be made for the testing and customer will receive a billing adjustment based on the corrected consumption determined under the procedures set forth in Section No. 5, Article (j).

(f) **Appliance and Other Miscellaneous Service**:

(1) As used herein "HOURLY RATES THEN IN EFFECT" shall be determined based on the Schedule of Rates and Service Charges (**see DRM-7**) approved by the Arizona Corporation Commission and whether the repair is made during regular business hours (between the hours of 7 a.m. and 4 p.m. Monday through Friday) or after hours.

(2) When customer requests that the Company meter and regulator be relocated at the same address due to new building additions, remodeling or other reasons, the COMPANY'S HOURLY RATES THEN IN EFFECT (with a one hour minimum charge) shall apply, plus the cost of materials.

(3) The Company shall relight pilots which have been accidentally extinguished at no charge. Relighting of pilots which have been intentionally turned off by customer or upon his request will be done by the Company at ITS HOURLY RATES THEN IN EFFECT (with a one hour minimum charge).

(4) Any other special services (such as repair of customer-caused line breaks or conversion of appliances from natural gas to propane) shall be charged for at the COMPANY'S HOURLY RATES THEN IN EFFECT (with a one hour minimum charge) plus the cost of materials, if any.

SECTION NO. 5

GENERAL CONDITIONS OF GAS SERVICE

(a) **Metering and Basis of Measurement**: All gas delivered by Company shall be measured through a meter of standard type which is to be installed and maintained at the expense of the Company. For the purpose of billing customer(s) the unit of measurement shall be 100,000 BTU or a Therm of gas at the pressure at which it is measured, except when such gas is measured at a gauge pressure in excess of 11 inches of water column. The volume of gas measured at a gauge pressure in excess of 11 inches of water column shall be adjusted by computation in accordance with Boyle's Law, to the volume that it would occupy at a gauge pressure of 11 inches of water column. In such computations a value of 14.737 pounds per square inch shall be used for normal atmospheric pressure and a value of 60 degrees Fahrenheit shall be used for the base and flowing temperature of the gas.

(b) **Limits of Use**: All gas delivered to any customer is for the sole use of such customer on the customer's premises only, and such gas shall not be redelivered or resold or the use thereof by others permitted unless otherwise expressly agreed to in writing by the Company.

(c) **Location of Meters**: The consumer shall furnish and maintain a suitable location on his premises for Company's service line, meter, service cock, regulator and other appurtenant fittings. The location shall be on the consumer's premises and as near as practicable to the point where the consumer's house piping begins (which shall be known as the point of delivery), and where it will be accessible at all times to the Company's representatives for inspection, reading and testing of meter and regulator. All meter and regulator installations shall be located where they will not be damaged and where such equipment will be adequately ventilated. The customer shall not permit anyone other than an authorized Gas Company employees to adjust, repair, connect, disconnect or in any way change the meter or other Company owned equipment for use in serving his premises.

(d) **Right of Ingress and Egress**: Customer, without charge, shall grant to Company, to the extent necessary, the right to enter upon premises owned or leased by customer (or over which customer has obtained a right of way) for the purpose of installing, maintaining, inspecting, repairing, replacing and/or relocating any service pipe, meters, regulators and appurtenant equipment necessary for the Company to provide a safe and adequate customer service, and the right of ingress and egress to and from such premises at all reasonable times, with the right to remove its facilities at the expiration or termination of service agreement.

(e) **Continuity of Service**: The Company shall exercise due diligence in maintaining delivery of gas but does not guarantee an uninterrupted delivery. Company shall not be held liable in damages or otherwise for any interruption or failure, in whole or in part, in gas delivery; nor shall Company be liable for damages to persons and/or property due to or on account of any leakage or escape of gas or in any manner connected with the transportation or handling thereof beyond point of delivery to customer, which point is understood to be at the Company-owned meter.

(f) **Meter Readings**: All meters shall be read as nearly as may be practicable, on the same day of each calendar month, as provided by A.A.C. R14-2-309.A.7.

(1) The reading of such meters shall be conclusive both with respect to the Company and the customer, as to quantities of gas delivered to the customer, except when Company's meter is found to be inaccurate, non-registering or the index has been obliterated beyond reading, in which circumstance, an appropriate determination of the gas delivered shall be made in accordance with the procedures set out in Section No. 5, Article (j).

(2) Additionally, the Company reserves its right to issue bills based upon estimated usage as authorized by A.A.C. R14-2-310.A.

(g) **Rate Application and Rendition of Bills**: Customers receiving gas service from the distribution facilities of the Company within its certificated area, shall be rendered bills as follows:

(1) **General Service Rate tariff**: Shall be applicable to residential and small commercial customers and under further conditions set forth in Section No. 2, Article (b).

(2) **Large Volume Gas Contract Service tariff**: Shall be applicable to customers whose volume meets the minimum requirement of 4,000 therms per year and the other specifications set forth in the tariff.

(3) **Tax Additions**: The applicable proportionate part of any taxes or governmental impositions which are assessed on the basis of the gross revenues of the Company and for the price of or revenue from the gas or service sold and for the volume of gas purchased for sale or sold by Company, shall be added to Company's authorized rates in effect at the time service is supplied.

(4) **Application of Increased Cost**: The Company's current rates are subject to increase or decrease in each Therm by the amount of any increase(s) or decrease(s) in the price per unit of measurement paid by the Company for gas purchased, with correction being made for volume on an appropriate measurement basis.

(5) **Rendition of Bills and Payment:** The billing of all customers shall be completed as promptly as practicable following the Company's established monthly meter reading date. Customers shall be allowed ten

(10) days following the date bills are rendered to pay the net amount. Any payment not received within the ten (10) day period shall be considered past due. All past due payments not received within fifteen (15) days after becoming past due shall be considered delinquent.

(h) **Discontinuance of Service**: When a customer fails to pay his account within twenty-five (25) days following the date the bill was rendered, *the Company shall give* customer five (5) days written notice that if account is not paid in full within the five (5) day grace period, it will be necessary for Company to apply customer's security deposit and accrued interest, if any, to his account. Should the amount of customer's security deposit and accrued interest not be sufficient to cover total amount due Company, service will be discontinued. Following such action, if the customer desires to resume gas service it will be necessary for him to pay Company the balance of his unpaid account in addition to a reconnection charge of (**see DRM-7**) and to deposit 2 times the estimated average bill as security with the Company before service will be resumed.

(i) **Discontinuance without Notice**: The Company shall have the right to discontinue service at any time without advance notice to customer for any of the following reasons:

(1) The existence of an obvious hazard to the safety or health of the consumer or the general population.

(2) The Company has evidence of meter tampering or fraud.

(3) Failure of a customer to comply with curtailment procedures imposed by the Company during supply shortages.

(j) **Meter Testing and Billing Adjustments**:

(1) All gas to be delivered by Company shall be measured at point of delivery by meters of a standard type and are to be installed and maintained by and at the expense of Company. Customer shall have access to such meter(s) at all reasonable times, together with the right to witness tests and inspection of said meter(s) and to have a representative present at the readings of meter(s).

(2) In the event customer should install meter(s) to check Company's meter(s), then Company shall have the same rights of access to and inspection of customer's check meter(s) as customer enjoys with reference to Company's meters. Company's meters shall be tested in the presence of a representative of customer, should customer so desire. Any meter found upon test to register within three percent (3%) of the accuracy, whether slow or fast, shall be deemed to be correct. If a meter is found to register more than three percent (3%),slow or fast, then for the period between the discovery of the inaccuracy and the last previous test the reading of such meter shall be corrected by increasing or decreasing the volume of gas, as the case may be, by an amount equal to the difference between the total inaccuracy and three percent (3%).

(3) However, pursuant to A.A.C. R14-2-310.E.1,in no event shall an adjustment for inaccuracy extend over a period longer than three (3) months from the date the error was discovered by test. In the event Company's meter index should be damaged to the extent that it could not be read or meter should become inoperative with meter valves open, the quantity of gas delivered during such period shall be determined by one of the following methods applicable:

(a) By computing the deliveries from the registration of customer's check meter, should customer have a corresponding meter installed and accurately registering;

(b) By estimating the quantity delivered upon the basis of deliveries during preceding billing period under similar conditions when the meter was registering accurately.

(k) **Adjustment Due to Leakage on Customer's Lines**: No adjustment shall be made and the Company shall not be liable for any leakage beyond the point of delivery.

(l) **Disputed Bills**: In the event a customer questions the amount of any bill for service rendered by the Company, the proper remedy for such customer to prevent disconnection for non-payment of his bill shall be to pay the undisputed amount and notify the Company of the disputed amount prior to the delinquent date of the bill. The Company shall promptly make a thorough investigation of the disputed account. If the account is found in error, the Company shall promptly correct same and render a corrected bill to the customer, together with any refund to which the customer is entitled. If the Company determines that the customer still owes an amount on the account, the customer shall submit payment within five (5) working days of receiving the results of the Company's investigation. The customer may then submit the dispute to the Commission.

(m) **Change of Occupancy**: When a customer moves from any premises supplied by the Company with gas service, notice thereof shall be given at the office of the Gas Company not less than three (3) working days prior to the date of such change, by the outgoing party, who will be held responsible for all service supplied to the premises up to the scheduled turn-off date.

(n) **Manner of Serving Notice**: Notice by Company or customer may be given by or to an authorized representative of the Company or by letter deposited in the United States Mail with first class postage prepaid. Notice by letter shall be considered given when deposited in the United States mail, postage prepaid.

SECTION NO. 6

RESPONSIBILITY FOR GAS EQUIPMENT

(a) The Company shall be responsible for the safe conduct and handling of the gas until it passes the point of delivery specified in Section No. 5, Article (c) of these regulations. Except as stated herein, the entire responsibility for the safe conduct, handling and utilization of the gas after it passes the point of delivery shall be that of the consumer. In case of loss or damage to the Company's property from the acts of negligence of the consumer, the consumer shall indemnify the Company for the cost of repairing, or replacing such property.

(b) Although the Company assumes no responsibility for the safe upkeep or operating conditions of any consumer's service line downstream of the point of delivery or of his house piping, fixtures or appliances, the Company may refuse to turn on the gas to any consumer's premises until all the consumer's pipes and appliances have been tested and found to be tight, safe and free from leaks and in good, safe operating condition. Such proof, if requested by the Company, shall be in the form of a certificate executed by a licensed plumber or by the local municipal gas inspector, certifying that such pipes and appliances have been tested and found to be tight, safe, free from leaks and ready for use. After the gas has been turned on, the Company shall test the consumer's pipes and appliances for leakage. Whenever leakage is found in any such test, the Company shall discontinue service until such leakage is properly corrected by the customer.

(c) Immediate notice shall be given to the Company by the Consumer of any gas escaping on the Consumer's premises. Under no circumstances shall the Company be charged with constructive notice of defects in piping, equipment and/or appliances (other than the meter, service cock, regulator and other facilities installed by the Company) from the point of delivery. Upon receipt of notice of escaping gas, the Company shall, as promptly as may be feasible under the circumstances, send one of its representatives to investigate the matter. If the leakage is found to be caused by one of the Company's facilities, the Company shall have the right to temporarily discontinue service until the leakage can be corrected. In the event the leakage is found to be caused by facilities for the upkeep of which the consumer is responsible, the Company shall have the right to discontinue service until such time as the leakage is corrected through proper changes, adjustments and/or repairs.

SECTION NO. 7

CONDITIONS GOVERNING EXTENSIONS OF GAS MAINS AND SERVICE LINES

Subject to availability of adequate capacity and suitable pressure at the point of beginning of measurement of the extension, the Company will extend its distribution facilities as provided in this Section. Proposed extensions to serve larger than average customer(s) (such as residential subdivision developers, large commercial customers and permanent mobile home parks) shall be considered on a revenue basis as hereafter provided in Articles (b) and (d).

(a) **Free Main and Service Line Extension-Footage Basis**.

The following maximum amount of free main and service line extension shall be allowed for the purpose of providing gas service to NEW permanent residential and/or commercial consumers served under the Company's General Service Rate tariff.

(1) One hundred fifty (150) feet of main line and seventy-five (75) feet of service line for each new permanent customer. If the main extension is to serve customer(s) having installed gas operated air conditioning equipment, an additional twenty-five (25) feet of main line will be allowed for each ton of refrigeration installed by such customer(s). An additional fifty (50) feet of service line will be allowed for any customer with two (2) other major gas appliances who installs a swimming pool heater. Gas lighting customers will be allowed an additional twenty (20) feet of free service line.

(2) In any instance where the Company is able to reduce its cost by participating in a community ditch program with another utility, the

amount of the free main extension shall equal, and not exceed the normal cost of installing one hundred fifty(150) feet of main by the Company.

(3) The free footage allowances shown above are limited to pipe sizes of 3-inch and smaller.

(4) A reduction of the footage allowances shown above may be made by the Company under the following circumstances:

(a) Where service is to a residence of less than normal size, with one to three rooms, small filling stations, etc., where gas consumption would be too limited to support a prudent investment.

(b) Where extension is to be installed in casing under highway pavement.

(c) Where extension is to be installed across private property involving the purchase of right-of-way.

(5) Measurements in all cases must be along the route of construction required but no free distance will be permitted beyond the shortest route to the nearest practical point of delivery on each customer's premises as determined by Company. In addition to the free distance mentioned above, the distances necessary to cross public streets, roadways, or highways shall also be free, except any distance across state or federal highways. In the event that facilities are required to cross state or federal highways in order to serve customers, a special study by the Company will be necessary to determine the basis on which such facilities may be constructed.

(b) **Free Main and Service Line Extension - Revenue Basis**.

The Company may extend its distribution facilities without charge to the following larger than average customer(s):

(1) Any customer or group of customers whom Company considers permanent, who will be served under the Company's General Service Rate tariff or other class-rate schedules, and where the annual revenue estimated by Company will be equal to one-half of the cost of the extension, including meter and regulators. Free extensions made on this basis are subject to cost limitation of $5,000,excluding meters and regulators.

(2) Any customer or group of customers whom Company considers permanent, who will be served under the Company's General Service Rate tariff or other class-rate schedules, and who require an extension costing more than $5,000, excluding meters and regulators, if the Company determines that the volume of use makes such free extension economically feasible. Proposed extensions to be made on this basis are subject to special study.

(c) **Customer Contribution in Aid of Construction-Footage Basis.**

On proposed extensions that exceed the free footage allowance, Company will extend its facilities up to a maximum of 4,500 feet combined distance of mains and service lines, provided customer(s) will sign a line extension agreement and pay Company the cost of excess footage at the rates per foot shown in the following schedule (adjusted for current costs at the time of installation) for the various sizes of mains and service lines.

SemStream Arizona Propane
Rules and Regulations for Gas Service (DMR-10)
Payson, AZ. 85541

CONSTRUCTION CHARGES

(based on current vendor rates for pipes and materials)

MAINS

2 inch gas main	$1.00 per foot.
3 inch gas main	$1.50 per foot.
4 inch gas main	$2.25 per foot
6 inch gas main	$4.25 per foot

SERVICE LINES

.75 to 1.0 inch plastic pipe:	$1.00 per foot.

ADDITIONAL CHARGES

Shading	$2.00 per foot
Trench and Labor	$8.00 per foot

(d) **Customer Advances in Aid of Construction - Revenue Basis.**

On proposed extensions that exceed the free footage allowance, the Company will extend its facilities up to a maximum of 4,500 feet combined distance of mains and service lines on a revenue basis as follows:

(1) **For extensions over the free footage allowance**, Company will extend its distribution facilities up to a total cost limitation of $5,000, excluding meters and regulators, provided customer(s) will sign an extension agreement and advance to the Company a sum equal to one half of the estimated cost of the extension, excluding meters and regulators,

provided the annual revenue as estimated by the Company for such extension is equal to at least one half of the cost of such extension.

(2) **For extensions costing more than $5,000**, excluding meters and regulators, that do not show economic feasibility as provided in Article (b)(2), the Company may, at its option, and after special study, extend its facilities provided that customer(s) will sign an extension agreement and advance as much of the cost of such extension as is necessary to make the extension economically feasible.

(3) **Refunds**. The following procedure will be followed in making refunds on customer advances in aid of construction:

(a) Customer advances in aid of construction are subject to refund within a five (5) year period after signing the Line Extension Agreement.

(b) Upon request, the Company shall conduct a survey to determine if additional customers are connected to and receiving service from the particular extension not including laterals or extensions from the extension being served.

(c) If the survey discloses that additional customers are connected to the extension and receiving service, the Company will refund the difference between the amount actually advanced under the Line Extension Agreement and the amount of the advance had it been determined at the time of the survey.

(d) All refunds will be made in cash. No refunds will be made on any Line Extension Agreement after five (5) years from the date of the agreement. In no event will the amount of the refunds exceed the amount originally advanced nor will interest be payable thereon.

(e) **General Conditions**

(1) **Plant and equipment design and course**: In the interest of customer service, Company shall determine the size of pipe and equipment in the construction of extensions to its distribution facilities so as to enable it to maintain an adequate volume of gas at proper pressure conditions. The course that main line extensions follow shall be determined by Company and construction is to be confined to public streets, roadways or rights-of-way easements.

(2) **All easements or rights-of-way** required by Company for an extension, or any part thereof, on customer's premises or other private property, shall be furnished without cost to Company.

(3) **Service Lines** shall be defined as Company supply line exiting from its mains to a point on or adjacent to customer's premises where Company owned meter is located, which shall be known as the point of delivery.

(a) Under Company's policy, seventy-five (75) feet of service line will be extended uniformly at Company expense to all customers coming under the classification of Company's General Service Rate tariff.

(b) If for any reason Company's meter should be installed at a distance from Company mains, greater than the free allowance, then customer shall pay Company for such excess footage at the uniform rate per foot as shown in Section No. 7, Article (c). The amount paid by customer for such excess footage is non-refundable and all pipe, fittings, meter and regulator located between Company's main and the point of delivery at the outlet of meter shall not exceed the net distance of two hundred twenty-five (225) feet, all of which shall become the property of Company and will be owned, operated and maintained by Company in accordance with provisions set forth in Section No. 5, Articles (c) and (d).

(c) All service lines, whenever practicable, shall be extended at right angle from the Company's main on a tangent to meter location.

SECTION NO. 8

POLICY ON TRAILER PARKS

(a) Each trailer must have an outside make up air vent.

(b) Each trailer must have a flexible connector of a minimum length of 36" between the bottom of the trailer and ground level at the gas inlet to the trailer.